

Deferred Compensation Plan BOARD REPORT 10-35

Date: October 6, 2010
To: Board of Deferred Compensation Administration
From: Staff
Subject: Roth 457

*Board of Deferred
Compensation Administration
Eugene, Canzano, Chairperson
Richard Kraus, Vice- Chairperson
Sangeeta Bhatia
Cliff Cannon
Sally Choi
John R. Mumma
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Recommendation:

That the Board of Deferred Compensation Administration:

- (a) Approve the addition of Roth contributions as a savings option within the Deferred Compensation Plan;
- (b) Direct Personnel Department staff and City Attorney staff to work together to draft language amending the Plan Document, and if necessary the City's governing Administrative Code provisions, to provide for Roth contributions, and return to the Board with the proposed language; and
- (c) Approve staff's proposed communication from the Board Chairperson to the City Controller and the Department of Water and Power (DWP) to implement the necessary programming changes to allow for Roth contributions.

Discussion:

On September 27, 2010, President Obama signed into law the Small Business Jobs Act of 2010, within which are contained provisions for permitting Roth contributions into Internal Revenue Code Section 457 plans. "Roth contributions" refers to a tax-advantaged savings approach currently available through "Roth IRAs," in which contributions are made on an after-tax basis but tax is not owed on distributions. This differs from our current Section 457 rules, which provide for contributions on a pre-tax basis with tax owed on distributions.

The legislation makes it possible for sponsors of 457 plans to allow participants to save using either or both savings approaches. A participant could decide whether it makes more financial sense to defer tax on current income and pay it in future income, or vice versa. For example, an individual who expects to have more income in retirement than while working may opt to save post-tax dollars with Roth contributions. Someone in the reverse situation may opt to save pre-tax dollars.

The legislation permits Roth 457 contributions beginning January 1, 2011. The Plan's third-party-administrator, Great-West Retirement Services ("Great-West"), indicates that

they will have the administrative capabilities to accept Roth contributions as of this date (Attachment A). To implement, however, the following steps will need to be taken:

(1) Board Action – The Board will need to take an action indicating its approval of permitting Roth contributions within the City’s Plan. Staff recommends that the Board take this action on the basis that permitting Roth contributions will provide a significant additional tax-advantaged savings opportunity for Plan participants.

(2) Authoritative Document Revisions – Permitting Roth contributions does not require the establishment of a new plan. As a result, it is only necessary to amend the current plan in order to provide the new savings option. Staff recommends that the Board direct Personnel Department staff and City Attorney staff to work together to draft language amending the Plan Document, and if necessary the City’s Administrative Code enabling provisions, to provide for Roth contributions, and return to the Board with the proposed language.

Since the Board controls the Plan Document, amending it can be accomplished relatively quickly. If an Administrative Code revision is required, more time will be required because this will need to be approved by the City Council.

(3) Payroll – A new payroll deduction code will need to be created in both the City as well as DWP payroll systems. In addition, the payroll system will need to coordinate pre-tax and post-tax contributions against a participant’s applicable annual contribution limit. This means a participant could contribute both "Roth" dollars and traditional pre-tax dollars, but the total of the two could not exceed the total applicable annual contribution limit. In 2010 these limits are \$16,500 for participants below age 50, \$22,000 for participants above age 50, and \$33,000 for participants eligible for “Catch-Up”. Finally, there may be tax tracking or reporting requirements involved such as tracking for the participant, and perhaps even reporting on the W-2, the dollar amount of the Roth contribution for that tax year.

Staff has informally requested tentative feedback from the Controller and DWP Payroll as to the feasibility and timing of instituting the necessary payroll programming. Staff recommends that the Board approve a more formal communication from the Board Chairperson to the City Controller and DWP to implement the necessary programming changes to allow for Roth contributions (Attachment B).

(4) Communications – Communicating this new option will be a significant challenge because it will require revisions of many of the Plan’s primary communication materials (enrollment booklet, distribution booklet, website, etc.). It will be necessary to not only describe the features of Roth contributions/distributions, but also provide participants with the tools for evaluating which contribution type is optimal for them. Communication pieces that need to be developed or revised include but are not limited to the following:

- New document introducing the Roth savings option and its essential features
- Revisions to enrollment guide

- Revisions to enrollment form
- Revisions to distribution guide
- Revisions to website

Staff will begin working on these communication pieces immediately with Great-West. In addition, staff will work with Great-West in preparing an educational seminar and group meeting schedule focused specifically on explaining the Roth option.

Implementation – The timing of implementing the Roth savings option will depend primarily on when the necessary payroll changes can be implemented and revision of the Plan’s authoritative document. Staff will return at the Board’s November meeting with an update on Roth implementation and any additional action items that may be required.

Submitted by: _____
Steven Montagna

Approved by: _____
Alejandrina Basquez